

INFORMATION PAPER

CERM-P

SUBJECT: Proposal for Regionalizing Supervision and Administration (S&A) Management

1. Purpose. To inform and to obtain the BODs approval of the proposal for regionalizing S&A management.

2. Facts.

a. There are ways to improve the current method of S&A management and to promote the regional business center concept. Current practices provide little incentive for commanders to be efficient. There is no reward for spending less than the income generated. Performance is managed on an annual basis and construction projects are rarely accomplished in a fiscal year. Construction happens in phases with very little "ditch digging" at the start or completion of a project. Workload mixes also vary; workload may ramp down one year and then increase the next. These cyclical construction phases create challenges for an MSC to live within its income on an annual basis.

b. DCSRM prepared an accounting of MSC contributions to the central S&A account. We orchestrated a meeting with Military Programs to present this information and to review options for regionalizing S&A management. Together we came up with what we feel is the best proposal for providing commanders with the incentive to be more efficient and for placing accountability for S&A management with the MSC. This proposal is outlined in the following paragraphs.

c. We plan on opening an S&A "checking account" for each MSC. Their beginning balance will be based on their prorated portion of one-quarter of the reserve or approximately \$14 million, leaving approximately 3-months reserve in tact. MSCs FY99 workload will be the basis for the prorata. MSCs take ownership of these funds and with it control of their destiny from that day forward. Gains and losses, starting this fiscal year, will be credited to the MSC S&A checking account. The differences in S&A income and expense become the MSCs responsibility to manage. MSCs retain their balance for future use and are expected to recoup their losses.

d. Separate MILCON and O&M rates and accounts will still be maintained, but for management purposes they will be viewed corporately as a combined MSC account. HQ, on the other hand, will corporately manage the two separate accounts.

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e. Of the total S&A reserve, approximately \$43 million will be retained in the central account managed by HQ. This reserve is maintained to cover program and seasonal variations and to assure funds are available to cover post construction and closeout costs. It will sustain USACE in the event of a temporary shut-down for up to three months and could be used to float a loan to an MSC in case of hardship.

f. There are a number of advantages to this proposal. It provides an incentive for MSCs to wisely manage their regional S&A accounts. If their expenses stay below income, they grow a balance for use during low-income phases of the construction. If their expenses exceed income consistently, they must take action to reduce costs to stay within their finite account. Their only recourse would be a formal request for a loan from the Chief to be withdrawn from the central S&A account. The regional S&A management approach also has a more "forward" focus. It promotes wise investments in the workforce, which produce long-term benefits. MSCs will have greater flexibility in responding to customers needs.

g. The corporate S&A reserve is not at risk as the reserve total (\$57 million) is maintained in the corporate account. The Command is delegating responsibility to MSCs for one-quarter of the reserve as shown below.

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MSC share of reserve (rounded)		
HNC	567	550
LRD	987	1,000
MVD	0	0
NAD	2,697	2,700
NWD	2,246	2,250
POD	2,079	2,075
SAD	2,279	2,275
SPD	1,261	1,250
SWD	1,588	1,600
TAC	296	300
Total	14,000	14,000